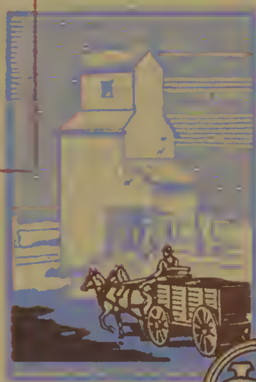
ANNUAL REPORT

1944



THIRTY-EIGHTH ANNUAL REPORT

Year Ending July 31, 1944

...D GRAIN GROWERS LIMITED

THIRTY-EIGHTH
ANNUAL REPORT

OF

UNITED GRAIN GROWERS LIMITED

FOR THE

FISCAL YEAR ENDING
JULY 31ST, 1944

PRINTED AT THE COMPANY'S PRINTING PLANT
THE PUBLIC PRESS LIMITED, WINNIPEG

BOARD OF DIRECTORS

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President and General Manager

J. E. Brownlee
First Vice-President and General Counsel

John Morrison
Second Vice-President

DIRECTORS

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C. E. Hope	Fort Langley, B.C.
M. T. Allan	Neville, Sask.
R. Shannon	Grandora, Sask.
S. S. Sears	Nanton, Alta.
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J. Stevens	Morinville, Sask.
E. E. Bayne	Winnipeg, Man.
J. Harvey Lane	P.O. Huronville, Sask.

Secretary—Chas. C. Jackson, Calgary, Alta.

Head Office, Winnipeg, Hamilton Building.
Calgary Office, Lougheed Building.
Saskatoon Office, 140 Avenue "A" South.
Edmonton Office, 810 McLeod Building.

529 Country Elevators in Manitoba, Saskatchewan, Alberta and British Columbia. Terminal Elevators at Port Arthur, Ont., Vancouver and Victoria, B.C.

Thirty-eighth Annual Report

of

United Grain Growers Limited

for the

Fiscal Year ending July 31st, 1944

Presented to the Annual Meeting of the Company held in Calgary, November 9th, 1944

Report of the President
on behalf of the Board of Directors

The first words of a report presented now to a representative gathering such as this must be an expression of thankfulness for the success of the allied arms during the past year and the steadily brightening prospect that the war may soon be brought to a victorious conclusion. To effect that result at the earliest possible moment still requires the utmost endeavour of this country and of other allied countries. Therefore the danger must be guarded against of any relaxation of effort which would tend to prolong the war. At the same time thought must increasingly be turned to the problems with which we will be confronted at the end of the war so that victory may be turned into the foundation of an enduring world order and that the fruits of victory may be harvested.

This is the thirty-eighth annual report of your Company to be presented to shareholders and the twenty-seventh since United Grain Growers Limited assumed the present form of the company through amalgamation of the Grain Growers' Grain Company and the Alberta Farmers' Co-operative Elevator Company. Each year which has elapsed since the foundation of the Company in 1906 and since amalgamation in 1917 has confirmed the wisdom of the founders of the Company in establishing a business enterprise for the benefit of western agriculture.

THE YEAR'S OPERATIONS

The Company's operations for the past year produced satisfactory financial results as is apparent from the annual financial statement which has already been placed in the hands of all shareholders. The net profit for the year after all charges was $245,152.79, sufficient to provide an annual dividend on the Company's capital stock at the rate of five per cent per annum and to leave an addition to be made to earned surplus account out of which certain appropriations have been made. The net profit for the year was established after making full provision for bond interest, for taxes and for depreciation of capital assets. Before arriving at the net profit for the year an addition was also made of $1,225,000.00 to patronage dividend reserve, disposal of which is temporarily in suspense pending the settlement of certain problems of taxation.

A dividend at the rate of five per cent per annum has already been paid for the past year on the Company's Class "A" Preferred, Non-Cumulative Capital Stock. An amount has been set aside for subsequent payment at the same rate on Class "B" Voting Shares. The total amount provided for dividends on capital stock was $157,342.00. The Earned Surplus account after certain write-offs is carried forward in the amount of $499,066.99.

The volume of business done by your Company's elevators during the past year was much larger than was anticipated at the beginning of the season. More grain than ever before passed through both the country and terminal elevators of United Grain Growers Limited, in spite of the fact that the crop of 1943 was a small one. There had been a very large carryover of both wheat and feed grains on farms, which farmers had been unable to deliver, owing to elevator congestion, during the previous year. During the past year opportunities developed for farmers to deliver most of this carried-over grain, mainly because export outlets developed. At the beginning of the season the Government had announced that wheat deliveries during the crop year would be limited to fourteen bushels per authorized acre. During the year restrictions on deliveries were completely lifted so that total wheat deliveries in western Canada amounted to 325 million bushels, probably 80 million bushels more than would have been possible under the limitations at first announced. Marketings of oats and barley were heavier than had previously been known in western Canada. These facts were largely due to the development of a great demand in the United States for Canadian grain for feed purposes, for malting and for the manufacture of industrial alcohol. Many millions of bushels of Canadian wheat were bought by the Commodity Credit Corporation of the United States, and there was a very large movement of oats and barley through commercial channels to that country. These large handlings tended to produce substantial earnings for the Company during the past year. Also important was the large extent to which the grain storage facilities of the Company were employed during most of the season. To a considerable extent these facilities were occupied by "Crown wheat," that is, wheat which had been acquired for Government purposes by the Government of Canada in September of 1943. That transaction meant the transfer of Government ownership of considerable quantities of wheat which earlier had been owned by the Company. The circumstances under which the Government acquired this wheat added largely to the revenue for the year of this Company and all other elevator companies, as did also the storage charges subsequently paid on it by the Government. It must not be assumed that repetition of the circumstances of the past year is to be expected under normal conditions and it must be recognized that some of the important developments affecting revenues for the past year arose as a result of war. Some time in the near future we must both expect and hope for such a change in conditions, arising from termination of the war as will cause a rapid flow out of Canadian elevators of the stocks of grain now stored therein.

BALANCE SHEET

As we turn to an examination of the Balance Sheet note will first be made of the Company's working capital position.

Current and working assets amounted to $20,082,644.78
Current liabilities amount to 18,116,607.88

The difference of $1,966,036.90 represents the Company's working capital position. This is a strong position, and provides an amount of working capital enabling the Company to handle satisfactorily the large amount of business with which it now deals.

Under Current and Working Assets the first item is $597,843.52, cash on hand and in banks. This is a large amount in view of the extensive bank borrowings of the Company. The explanation lies in the fact that it is necessary to keep sufficient cash on hand with paymasters in the country, ready for redemption of the Company's cash tickets as presented.

The next item is $300,000.00 in Dominion of Canada bonds, representing the investment held by your Company in Victory Loan Bonds.

Accounts and Bills Receivable amount to $764,371.29. An important part of this represents money owing to the Company by The Canadian Wheat Board in connection with the large amount of business transacted with that institution. There are also included storage and carrying charges and other accruals, after providing for estimated doubtful accounts.

The grain inventory stands at $17,387,100.38. This amount, while high, is less than that at the corresponding period the previous year, when the inventory was in excess of $19,000,000.00 and was at the highest figure in the Company's history. As at July 31st, 1944, stocks of grain carried in the Company's country elevators and annexes had been reduced by several million bushels from the figures of the previous year. There was, in contrast with conditions prevailing a year earlier, a considerable volume of space available in country elevators for reception of the new crop, an indication that the stored reserves of western grain had begun to move rapidly to market. Practically all of the grain included in the inventory was either in country elevators or annexes or was en route to terminal elevators. Under prevailing market conditions the Company had found it advantageous to sell coarse grains on arrival at terminal elevators, while with respect to wheat and flax handled for account of The Canadian Wheat Board, that body is accustomed to settle with the Company when such grain is delivered at terminals. Consequently grain in the Company's terminal elevators as at July 31st, 1944, was owned almost entirely by others. As the note on the Balance Sheet indicates, three classes of grain are included in the inventory:

(a) Wheat and flax acquired on behalf of The Canadian Wheat Board,
(b) Wheat originally acquired by the Company on its own behalf but now held on behalf of and deliverable to The Canadian Wheat Board, in accordance with the new wheat policy of the Canadian Government which became effective on September 27th, 1943, embodied in Order-in-Council P.C. 7942, and
(c) Coarse grain bought and owned by the Company.

Figures for the inventory are net, that is after deducting grain represented by outstanding storage tickets and warehouse receipts.

Addition of twine, coal and sundry merchandise at cost to the amount of $908,347.04 brings the total for inventories to $18,295,447.42.

Deferred charges and prepaid expenses to the amount of $124,982.55 include such items as prepaid insurance and taxes, and licenses and operating supplies purchased in advance of requirements for the next fiscal year.

The item for investments stands at $82,020.41. In accordance with the practice adopted some years ago memberships in different Grain Exchanges, values of which are fluctuating and uncertain, are carried at the nominal figure of $1.00. The Company has mortgages and agreements for sale, amounting to $80,358.41, and common stocks at $1,661.00, including shares in a company through which different elevator companies at the head of the lakes secure disposal of terminal elevator screenings.

The figure for Employees' Pensions, $262,558.04, represents payment to the Annuities Branch of the Dominion Government, less amounts written off to date in connection with the establishment of the Company's Pension Plan, authorized at the annual meeting three years ago. The amount in question is being written off in ten annual instalments, which constitute allowable deductions for Income Tax purposes, a concession made by the Dominion Government to encourage the inauguration of such plans by different companies. The pension plan has proved of great service to your Company, enabling it to retain the services of employees who might otherwise have been tempted by opportunities for apparently more profitable occupation elsewhere. A number of employees have already been retired under the plan. Corresponding pension plans have been adopted or are in process of establishment in other and similar businesses.

The item of Bond Discount and Expenses of $82,318.04 covers discount and expense arising in connection with the bond issue made in 1943 which will be referred to later.

The figure for Capital Assets, $11,847,441.05, covers the actual cost of acquiring country and terminal elevators, sites, warehouses and other equipment. Against that amount reserves for depreciation have now been set up amounting to $6,337,198.39 so that these assets are now carried into the Balance Sheet at $5,510,242.66, or less than one half of the original cost. The following is an analysis of the Depreciation Reserve:

PROPERTIES AND DEPRECIATION RESERVE

JULY 31, 1944

	Book Value	Reserve for Depreciation	Net Book Value
Country Elevators, Cottages, Warehouses, Sheds, Sites, etc.	$ 7,826,487.67	$4,370,728.08	$3,455,759.59
Terminal Elevator and Equipment and Sites	3,084,723.41	1,261,622.84	1,823,100.57
Printing Plant and Equipment and Sites	556,881.21	399,512.34	157,368.87
Miscellaneous Equipment, including Office Furniture and Fixtures	379,348.76	305,335.13	74,013.63
	$11,847,441.05	$6,337,198.39	$5,510,242.66

The above figures for capital assets do not include cost of temporary storage annexes built during 1940 and later, adjacent to country and terminal elevators, the total cost of which was more than $1,100,000.00. When these

temporary annexes were built an arrangement was made with the Dominion Government by which their cost was to be written off during a period of two years. This was done almost completely during the two preceding years. As will be seen when we come to the Consolidated Statement of Profit and Loss and Earned Surplus, an amount of $3,589.93 still remained to be dealt with and was written off during the past fiscal year. The arrangement with the Dominion Government provides that when these annexes come to be disposed of, possibly in the near future, any amount realized from them will constitute part of the taxable income of the Company.

The next item of $93,275.93 represents the amount at which there is carried the cost of establishing The Country Guide.

The Capital Assets of the Company thus amount to $5,603,518.59 and the total assets of the Company at date of Balance Sheet amount to $26,113,059.86.

On the Liability side of the Balance Sheet reference has already been made to the total amount of Current Liabilities of $18,116,607.88. The largest amount included therein is for bank loans and overdrafts, $10,659,585.92. While the amount is large, it is considerably smaller than the total which the bank borrowings of the Company have reached during the year. Shareholders will recall that at the last annual meeting of the Company, a by-law was passed to increase the borrowing powers of the Company from $15,000,000.00 to $30,000,000.00, in order to be prepared for any requirements in this connection.

The item for grain cash tickets and orders outstanding, $3,834,375.56, represents the largest total at which this item has yet stood in a Balance Sheet. It indicates that a very considerable volume of grain had been received at country elevators during the period preceding the end of the fiscal year. It may also be considered an indication of the fact that the need for current cash among the Company's customers has not been as great as was frequently the case during earlier years and they consequently find themselves able to hold these documents until it is convenient to cash them.

Accounts Payable and Accrued Liabilities amount to $1,188,402.21. This item includes accounts for binder twine and other supplies. It also includes an amount of $250,000.00 coming due and paid on September 1st, 1944. This was the last instalment repaying a loan for $750,000.00 made during 1940-41 for enlargement of the Company's storage facilities.

The Reserve for Income and Excess Profits Taxes stands at $262,697.27, after applying instalment payments to a total of $52,920.00 in respect of such taxes for the current year. Incorporated companies are required to make certain instalment payments on account of Income Tax from month to month, although the actual liability in this connection can only be determined at the close of the year.

The item of $2,000,000.00 for Patronage Dividends covers amounts allocated for that purpose for the fiscal years ending in 1941, 1942 and 1943, including an amount of $1,225,000.00 for the fiscal year under review. That item will be dealt with at length later in this report.

The item for shareholders' dividends, including unclaimed dividends for prior years, amounts to $171,546.92. In connection with unclaimed dividends

for prior years, it may be pointed out that each year, because of changes of address or for other causes, it becomes difficult for a time to get dividend cheques into the hands of some shareholders, but in due course most of these are eventually located. During the past year new addresses of many shareholders were obtained as the result of an intensive campaign which included the publication of a double page advertisement, listing names, in The Country Guide.

The next item deals with the Company's First Mortgage Bonds which are outstanding to a total of $2,600,000.00 after redemption on March 1st, 1944, of bonds to a par value of $200,000.00. The current bond issue was made at March 1st, 1943, at which time previously outstanding bonds were called for redemption. The issue was divided into two parts. The first consisted of serial bonds maturing annually in the amount of $200,000.00 on March 1st of each year from 1944 to 1950 inclusive. It was possible to issue these short term serial bonds at low rates of interest, 3 per cent, 3½ and 4 per cent, because of the market demand for short term securities. The second part of the issue to the amount of $1,400,000.00 bears interest at the rate of 4¼ per cent and these bonds are due on March 1st, 1958. Towards redemption the Company will commence in 1951, after the serial bonds are paid off, a sinking fund of $125,000.00 annually. The low rate of interest at which it was possible to borrow money, reflecting as it does the high credit standing of your Company, is a matter of satisfaction.

The shareholders' equity in the Company to the amount of $5,396,451.98 is shown under the heading of Capital, Reserve and Surplus. Capital stock of the Company is represented by two classes of shares. Class "A" shares, par value $20.00 each, are outstanding to a number of 143,631 shares and to a total amount of $2,872,620.00. Of Class "B" membership shares, par value $5.00 each, 52,882 are outstanding to a total of $264,410.00. Total paid-up capital is thus $3,137,030.00.

The present capital stock structure is the result of a reorganization which took place in 1942 with the approval of shareholders after the subject had been discussed at several annual meetings, and after authority therefor had been secured by Parliamentary amendment to the Company's charter. Former shares of $25.00 par value each were recalled and the new shares issued in exchange. Voting control of the Company resides in the Membership shares which can be issued only to farmer customers of the Company, and not more than twenty-five of which can be held by one person. Each holder of Membership shares is entitled to one vote and one vote only in meetings of the shareholders' local to which he is attached.

Class "A" shares are redeemable either through call at $24.00 per share or by purchase on the market, and, as indicated, a total of 4,551 such shares have been redeemed by purchase. This number includes 1,630 redeemed during the past fiscal year. This process of redemption helps to maintain a market for such shares as have to be offered for sale, and, at the same time, gradually increases the equity represented by each of the outstanding shares.

The General Reserve is maintained at the former amount of $1,647,057.42.

The Capital Reserve at $113,297.57 was increased by $32,548.96 from the

previous amount of $80,748.67, by the redemption of Class "A" shares during the past year.

The Earned Surplus in terms of the separate statement to be discussed amounts to $499,066.99.

With a total for shareholders' equity of $5,396,451.98 the liability side of the Balance Sheet is brought to $26,113,059.86.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

Turning now to the Consolidated Statement of Profit and Loss and Earned Surplus as at July 31st, 1944, the profit for the year, subject to deductions to be noted, amounts to $1,137,189.02. This amount was arrived at after writing off an amount of $3,589.93 in respect of temporary grain storage facilities, and after charging $1,225,000.00 for Patronage Dividend Reserve. That item will be dealt with in a following section of this report.

The amount of profit stated is subject to deductions. The amount for interest on bonds is $105,959.41; for directors' fees, $9,875.00; for counsel and legal fees and remuneration of salaried directors, $32,300.16; for annual meeting expenses, $20,628.71, and as provision for depreciation, $493,272.95. These deductions total $662,036.23, leaving as amount of taxable profit the sum of $475,152.79. From that amount there has been deducted provision for taxes under Dominion Income and Excess Profits Taxation Acts to an estimated amount of $230,000.00, leaving as net profit after taxation for the year ended July 31st, 1944, the amount of $245,152.79. When that amount is added to the Earned Surplus, the balance at credit of which as at July 31st, 1943, was $458,411.89, a total is arrived at for that account of $703,564.68. From that amount deductions have been made totalling $204,497.69. These include appropriation for the purpose of redeeming and cancelling 1,630 Class "A" Preferred shares of the Company's capital stock, $25,575.25; dividend of five per cent declared on Class "A" shares, $143,638.00; provision for dividend on Class " B " shares, $13,704.00 and amount written off bond discount and expenses, $21,580.44. The amount carried forward in Earned Surplus account as at July 31st, 1944, is thus established at $499,066.99.

SUBSIDIARY COMPANIES

The Balance Sheet and Statement of Profit and Loss and Earned Surplus are consolidated statements which incorporate completely the position and results of United Grain Growers Limited and subsidiary companies. The subsidiary companies are owned entirely by United Grain Growers Limited, and the consolidation of accounts thus presents a statement for the enterprise as a whole. Four subsidiary companies were engaged in active business during the past year, and each contributed substantially to the net earnings of the Company. United Grain Growers Terminals Limited is the subsidiary company through which are operated the terminal elevators at Port Arthur, Vancouver and Victoria, which operation forms an essential part of the grain business of the Company. The Country Guide Limited is the company which publishes your farm magazine, The Country Guide, and The Public Press Limited owns and operates the plant where the printing of that magazine is carried on.

Through United Grain Growers Securities Company Limited an insurance agency business is conducted. More detailed reference will later be made to these companies. In addition to the foregoing, there are two subsidiary companies, the Grain Growers Export Company Limited and United Livestock Growers Limited, which have been inactive for several years past, although it has been felt desirable to maintain the charters of these companies in case of later need.

The Board of Directors of each subsidiary company is constituted by the whole Board of United Grain Growers Limited.

THE COMPANY'S ELEVATOR SYSTEM

Your Company's elevator system at the close of the past fiscal year included 529 country elevators, one more than a year previous. Changes during the year were not important. One elevator was acquired by purchase and one by exchange. There are also at country points 61 permanent annexes, 381 temporary annexes, 285 coal sheds, 250 flour houses, 5 miscellaneous sheds and 261 cottages.

At Port Arthur the Company owns and operates a terminal elevator with a capacity of 5,500,000 bushels and temporary annexes adjacent thereto with a capacity of 4,000,000 bushels, a total capacity at Port Arthur of 9,500,000 bushels. At Vancouver, B.C., a terminal elevator with a capacity of 2,600,000 bushels is operated under lease from the Dominion Harbours Board and at Victoria, B.C., a million bushel terminal elevator, leased from the City of Victoria.

It has always been the policy of the Company to maintain its elevators fully in good operating condition from year to year, and until recently a process of continuous improvement in facilities was carried on. Under war conditions, it became necessary, some time ago, to reduce the improvement program. More recently it has not been possible to carry out fully the maintenance program, for neither labor nor materials have been available for work which would otherwise have been done. At the end of the war, it will be necessary to undertake a substantial amount of deferred maintenance. Fortunately, the income tax laws have been amended so that later such work can be charged back against the operations of an earlier year.

During the past summer there has been much congestion in the railway yards at the lakehead. Because of labor difficulties and shortage of men, terminals were often unable to unload railway cars as fast as these were delivered. Fortunately, your own elevator, equipped as it is with automatic car unloaders, experienced much less difficulty in this respect than occurred at elevators without this equipment.

The temporary annexes at Port Arthur, built in 1941, proved extremely useful during a comparatively brief period of use. Storage earnings therefrom proved barely sufficient to take care of the cost, which has been completely written off. For some time little use has been made of these annexes and with the rapid flow of grain now in progress through terminal elevators, it may be that the usefulness of these structures has largely disappeared. Similarly, the temporary annexes built adjacent to country elevators have now to a considerable extent been emptied, and some of these may be dismantled in the near future.

While the Company's terminal at Port Arthur has been extremely busy during the war, there has been but a small flow of grain through Pacific Coast terminals, which have been mainly used for storage. Not until the strain on ocean shipping becomes less can there be expected resumption of a large flow of grain by the western route.

The Company also operates as a terminal, an elevator at Edmonton, acquired from its former owner, the Gillespie Grain Company. It is found particularly useful in marketing re-cleaned, high quality oats from Northern Alberta.

It will be recalled that in 1943 the number of the Company's country elevators was increased by 82, largely by the purchase of elevators formerly operated by the Gillespie Grain Company in Alberta, while there were also other purchases. It has been very gratifying to see the results of this change of ownership, and the fact that former customers continued to patronize them while new customers have been attracted through the operation of these elevators by United Grain Growers Limited. Operating results for the past year have fully justified the purchase of these elevators.

FARM SUPPLIES DEPARTMENT

This department of your Company's business was conducted during the past year, as during previous years, so as to yield only a modest return over the cost of operation. The great value of this department has always been considered by the directors and the shareholders to lie in the services it renders to the Company's customers, making high quality supplies available to them at a minimum cost. The largest volume of business done is in binder twine and coal, in each of which commodities your Company is one of the leading distributors in western Canada. In spite of extensive development in the use of combines for harvesting, binder twine is still a very important commodity to western farmers, of whom many thousands rely on your Company to have twine available for them where and when they require it. Both the price of binder twine and the materials used in its manufacture have been under Government control. The ceiling which prevails upon its price has only been maintained because the Government, at considerable cost, has subsidized the materials used in its manufacture. The war cut off supplies of manila fibre formerly largely used in binder twine and the principal recourse has been to sisal fibre from Mexico. In 1943 this was supplemented to some considerable extent by an admixture of cotton. This was discontinued in 1944 and a good deal of jute fibre from India was incorporated in twine manufactured in Canada.

Your Company is one of the largest distributors of coal in western Canada and the largest retail distributor. Coal is furnished to customers through sheds at country elevators and also through various other agencies. During the past winter the Company was able to meet the expectations of customers and keep them supplied with coal as required, although earlier it had been feared that a serious coal shortage might occur. That this did not take place was largely due to the fact that the winter of 1943-44 was mild, and also to the fact that consumers had, to a very large extent, filled up their own coal bins during the summer. It is quite possible for serious difficulties to be encountered during the coming winter, especially if it is severe, or if weather conditions are such as to hamper railway operation. There will be difficulty in many places

in getting wood cut. Much less coal has been stored by consumers during the summer than was the case a year ago. Partly on that account and partly because of other difficulties, western mines have been operated at a reduced rate during the summer. By intensive efforts of all concerned, it may be possible if the winter is mild, to see that everyone is kept supplied with coal during the winter, but it will not be possible for everyone to get just the kind of coal he wants or to the use of which he has been accustomed. The Company has prepared to meet the situation by filling to capacity and keeping filled all coal sheds. To avoid any difficulties for themselves, customers are advised to order and to get in their own supplies of coal as soon as possible.

MANUFACTURE OF FEEDS AT EDMONTON PLANT

A year ago your directors were able to report completion of the feed plant at South Edmonton, where there was begun the manufacture of a complete line of livestock feeds under the Money Maker brand. These have proved highly popular in the area which can be served from Edmonton, and a steadily increasing demand for these feeds is developing. Care was taken from the start to put out only high-class products, mixed according to formulas approved by university authorities, and it has been very gratifying to receive reports and testimonials showing that the quality of these feeds is fully recognized by purchasers. As the plant got into operation various difficulties were encountered, most of them due to war conditions and to shortages of equipment and necessary ingredients as well as of storage space. These have now largely been overcome. For the year which has now begun the plant will be able to develop a large outturn, corresponding to the demand which is expected.

As was pointed out last year, it is only a certain area which can be served from a single plant such as the Company has at Edmonton, a fact largely connected with freight rates. Corresponding service to the Company's customers in other parts of western Canada will be possible only when one or more additional plants can be established. Decisions in regard to such development will have to be delayed until changing conditions make it practicable.

THE COUNTRY GUIDE LIMITED AND THE PUBLIC PRESS LIMITED

Both The Country Guide Limited and The Public Press Limited, which companies respectively publish and print your farm magazine, The Country Guide, were able to report profits for the year. There is reason for satisfaction in the high standing of The Country Guide, which reaches monthly more than 185,000 farm homes in western Canada. It is recognized as the leading agricultural publication in Canada. Because paper supplies have been restricted by Government order, it has not been possible to increase the size of the magazine as would otherwise have been done. New subscribers have had to be kept waiting before their subscriptions could be entered, until some other subscription had expired, as under the paper limitations it has not been possible to supply copies to all desiring them. Similarly, there has not been room in The Country Guide for all the advertising offered. The keen demand for advertising space is a tribute to the standing of the publication and it is also due to the fact that advertisers realize that purchasing power in western Canada has largely increased over that of a few years ago.

The Public Press Limited conducts a printing plant, and besides printing The Guide, does a considerable volume of high quality printing for the general public.

Your publishing enterprise has not only given the farmers of western Canada a valuable publication, exercising considerable influence in the interests of agriculture, it has also provided a very satisfactory investment.

UNITED GRAIN GROWERS SECURITIES COMPANY LIMITED

As usual, returns from operations of United Grain Growers Securities Company were satisfactory during the past year. The insurance department of your Company is carried on through this subsidiary which conducts a general agency business. Insurance policies are placed with reliable companies on the Company's own properties, and a considerable volume of insurance is written for farmers and the general public through a force of agents established at many different points in the western provinces. There was a notable increase during the past year in the volume of hail insurance written, due both to good crop prospects and to satisfactory prices for grain. Hail losses, which are borne, not by your Company, but by the Insurance Company, were high this past season. An important reduction has recently come into effect in the rates for fire insurance on farm properties. Inquiries for information on insurance problems can always be addressed to the offices of the Securities Company at Winnipeg or Calgary, or through elevator agents or other representatives of the Securities Company at various points.

WHEAT POLICY OF DOMINION GOVERNMENT SINCE SEPTEMBER, 1943

The important change in Dominion Government wheat policy which took place on September 27th, 1943, occurred before the last annual meeting of your Company and, consequently, was dealt with at length in the annual report a year ago. It occurred during the Company's financial year now under review, and it is desirable to note here the relation of the new policy to the business of your Company during that period.

Open market trading in wheat was discontinued after September 27th, 1943. Thereafter all wheat delivered by farmers had to go to The Canadian Wheat Board, for which producers received the new Wheat Board initial price of $1.25 per bushel basis No. 1 Northern at lakehead or Pacific Coast terminals. Consequently, from that time on, your Company and other elevator companies ceased to receive wheat except as agents for The Canadian Wheat Board and under authority of that body. At the same time, the Crown took over all wheat in commercial positions in Canada at September 27th, 1943, at the market prices of that date. So far as Wheat Board operations were concerned that meant that The Canadian Wheat Board sold to the Government of Canada all wheat of the crops of 1940, 1941 and 1942 which it was still carrying for the account of farmers. Wheat Board accounts for those crop years were then wound up and The Canadian Wheat Board has since been distributing on participation certificates for those years, the surplus funds thus left in its hands. That distribution is still in progress.

At the same time, wheat then owned by grain companies was also to be taken over for Crown account. Much of that wheat has continued to remain

in the Company's country elevators, as The Canadian Wheat Board, during the past year, applied shipments from country elevators on account of the new crop. Thus, although your Company is no longer buying wheat it will be some time yet before all the old wheat stocks are finally disposed off.

The wheat acquired by the Government and since carried at Government cost until disposed of has been used by the Government of Canada for various purposes. Wheat forwarded to Great Britain and to other allied countries supplied by the Government under the Mutual Aid plan has come from that source. So also has all wheat milled in Canada or sold in this country for feeding purposes. Such wheat has been supplied in Canada by the Government under special price arrangements related to the price ceiling policy. Wheat since delivered by farmers has been handled for account of producers by The Canadian Wheat Board, and has been sold on available export markets, going largely to the United States. Some quantities have also been sold to certain other countries. These sales have been at prices generally above $1.25 per bushel, so producers delivering wheat during the past crop year may expect, in due course, a payment on participation certificates for 1943-44.

During the months of August and September, 1943, open market prices were substantially above the Wheat Board initial payment then at ninety cents per bushel and practically all wheat deliveries by farmers during those months went on to the open market. During those months there were transportation and market difficulties in the way of handling and selling wheat which threatened serious losses to this and to other elevator companies. Consequently, during these two months of open market operations, purchases of street wheat were made on margins wider than usual. When the wheat was taken over by the Government on September 27th, the elevator companies were relieved of the difficulties against which they had thus been protecting themselves. Additional payments were accordingly made by the elevator companies to farmers who had sold wheat during the time in question, so as to adjust street spreads to what would have been the normal basis had it not been for these special difficulties. Before this Company made these payments a ruling was obtained from the Dominion Government that they would be regarded as proper expenses in calculating the Company's liability for Income Tax.

The transfer to the Crown of wheat formerly owned by the Company was profitable. In addition, the Company was able to collect from the Crown carrying charges on this wheat after September 27th. These facts are reflected in the financial statement for the past year, and especially in the large amount set aside for patronage dividend reserve, dealt with in another section of this report.

Some complications in financing as between The Canadian Wheat Board and the Company resulted from the advance in the Wheat Board initial payment and also from the transfer of stocks of wheat to the Government. These involved a payment by the Company to The Canadian Wheat Board, which is now being recovered from that body. The effect of the adjustment was to simplify accounting practices for both The Wheat Board and the operating companies, and to enable the Board to settle its accounts with the companies as wheat is delivered to them on the basic price of $1.25 per bushel. No profit or loss accrued to the Company in this connection.

When the new wheat policy was announced by the Dominion Government at the end of September, 1943, the initial price of $1.25, basis No. 1 Northern, at lakehead or Pacific Coast terminals, was guaranteed to western farmers for two crop years, 1943-44 and 1944-45. There is as yet no announcement that this guarantee will be continued to cover the crop of 1945, but some announcement from the Government in this connection is to be expected before the new crop is seeded.

TAXATION PROBLEMS I

Patronage Dividend Reserve

Taxation problems must occupy a large place in this report. The first of these concern patronage dividends. Also requiring notice are certain changes in prices for street grain which became effective during October, 1944. In the third place, there is the Royal Commission on taxation of co-operatives, appointment of which has recently been announced.

As is shown in the statement of Profit and Loss and Earned Surplus, an amount of $1,225,000.00 was set aside for Patronage Dividend Reserve before arriving at the profit for the year, which amount would be sufficient to pay a Patronage Dividend of more than two cents per bushel on grain handled during the past year. As is the case, however, with corresponding amounts appropriated for the two preceding years, this amount is not being paid out pending final settlement of the question of the Company's tax liability in connection with patronage dividends. As is shown on the Balance Sheet, the total amount now included in Patronage Dividend Reserve is $2,000,000.00.

While Patronage Dividends were paid for the fiscal years ending in 1927 and 1928, it was not until the fiscal year ending in 1941 that the Company entered on a period of years when it was again found possible to make appropriations for this purpose. The following appropriations have been made:

1941	$ 200,000.00
1942	375,000.00
1943	400,000.00
1944	1,225,000.00
TOTAL	$2,200,000.00

The first of these amounts, $200,000.00 for the year ended 1941, was paid out, although as indicated in the annual report for that year, there was some doubt at that time as to the Company's tax status in connection therewith. Before any subsequent payments of this kind could be made the Income Tax Department brought up the question of taxation and later informed the Company that the Department of Justice had ruled that the Company could not claim these amounts as deductions from income for taxation purposes. That opinion was not accepted by the Company as finally disposing of the matter, inasmuch as certain tax cases were to be heard before the Exchequer Court of Canada, expected to lead to decisions which might have a bearing on the Company's tax position.

It is planned, as soon as an actual assessment is made against the Company for any of the four years in question, to make an appeal which, in due course, will bring the Company's case before the Exchequer Court, unless prior

Court decisions are so conclusive as to make that step unnecessary. The first steps in that direction have not yet been taken, since assessments against this Company by the Income Tax Department have been delayed. Hearing of the cases first referred to has been suspended because of appointment of the Royal Commission, and it will be some time yet before the situation is cleared up. If it is ultimately found that the Company is taxable with respect to the patronage dividends paid and provided, most of the patronage dividend reserve above referred to will be absorbed in taxes, and will have to be paid to the Government instead of to customers of the Company.

The Company is not, and has not been, in the position of seeking to evade any taxes. Instead, it is seeking a final and authoritative decision, such as only a court can give, as to what taxes are due to the Government. Whatever the law may be, it is both the duty of the Government to enforce it, and of individuals and corporations to abide thereby. Whether or not the law should be changed is a matter to be separately dealt with and, finally, to be settled only by Parliament, as no doubt will be done following the report of the Royal Commission.

There may be quoted here a paragraph from last year's annual report which set forth the Company's position as follows:

> "On the contrary, the Company is simply awaiting final decision as to what taxes are imposed under the laws of Canada as they now stand. In dealing with this matter, the Board of Directors has been governed by two principles which have been stated in previous annual reports. In the first place, the Company fully recognizes the duty and obligation of every individual and institution in the country to pay such taxes as may be required and imposed, and most especially in war time. That is an attitude which the Board of Directors feels sure is shared by every member-customer of this Company. The importance of the principle is emphasized, so far as farmers are concerned, by the increasing weight of income taxation to which they, as individuals, are now subject. On the other hand, the principle of equality of treatment must be maintained, and full recognition accorded to the fact that this Company and its member-customers are fully entitled to take advantage of any tax exemptions which may be accorded by the Government and the Parliament of Canada in respect to the earnings and payments of any co-operative institution."

The situation, as fully explained in last year's annual report, seems to be well understood by practically all the Company's members. An occasional enquiry has been received, however, as to why the Company did not go ahead and pay out patronage dividends regardless of the tax situation. It should be quite obvious to anyone that the Company could not pay out in patronage dividends a total of $2,200,000.00 and then meet a tax liability of close to $2,000,000.00 in connection therewith, without grave danger to the institution.

It cannot be expected that under conditions of the future, it will be possible to continue to set aside for patronage dividends, sums corresponding with those of the past four years. Operating results of those four years have been largely affected by war conditions and also by Government wartime policies in respect to wheat.

TAXATION PROBLEMS II

Price Increases on Street Grain October, 1944

The tax problem also enters into certain price increases for street grain which became effective in October, 1944, as will be described.

The Canadian Wheat Board's contract with this and all other elevator companies, for handling Board wheat during the current crop year, specified a charge of three cents per bushel for handling street wheat in country elevators. The same rate had prevailed during the preceding year and represented the lowest margin on which street wheat had ever been handled in country elevators. The contract also included a schedule of prices which the companies were bound to pay at country elevators on behalf of the Wheat Board, which prices were declared in the contract to be "the prices fixed by the Board and approved by the Governor-in-Council."

On September 30th, the Saskatchewan Wheat Pool and Manitoba Pool Elevators Limited announced an increase of two cents per bushel in payment for Wheat Board street wheat at their country elevators to be effective October 2nd. A week later, the Alberta Wheat Pool announced a similar price change. Concurrently with the change with respect to wheat, there were announced increases in prices for flax, oats, barley and rye of two cents per bushel in Manitoba and Saskatchewan. In Alberta where a somewhat different basis of street prices had prevailed, the increase on coarse grains was somewhat less. It was also announced that these new price bases would be made retroactive to August 1st, 1944, and additional payments would be made to farmers who had delivered grain prior to the price changes.

Your Company, as a matter of competitive necessity, met the situation and announced corresponding price increases as from August 1st, 1944.

The foregoing facts, as will appear, have a highly important bearing upon the Company's tax position and it is equally important to make official record of them as is here being done.

Section 6 (2) of The Income War Tax Act reads as follows:

> "The Minister may disallow any expense which he, in his discretion, may determine to be in excess of what is reasonable or normal for the business carried on by the taxpayer, or which was incurred in respect of any transaction or operation which, in his opinion, has unduly or artificially reduced the income."

Section 32A (1) of the same Act reads as follows:

> "Notwithstanding any of the provisions of this Act, where the Treasury Board is of the opinion that the main purpose for which any transaction or transactions was or were effected (whether before or after the passing of this Act) was the avoidance or reduction of liability to tax under this Act, it may, if it thinks fit, direct that such adjustment shall be made as respects liability to tax under this Act as it considers appropriate, so as to counteract the avoidance or reduction of liability to tax under this Act, which would otherwise be effected by such transaction or transactions, and tax shall be assessed and levied accordingly and shall be payable as in this Act provided."

It appeared to your Board of Directors which met in special session to consider this situation, that if the extra payments in question were deliberately and voluntarily made, and not as a matter of competitive necessity, they might well be considered by the authorities as made to "unduly or artificially reduce the income" or for the purpose of "avoidance or reduction of liability to tax." There should be no such danger about making such payments to meet competition, and therby to avoid loss of business.

Your Board felt that it could not adopt any policy under which your Company could be accused of attempts at tax evasion. Moreover, it would have been highly dangerous to pay out large sums of money, amounting to hundreds of thousands of dollars, and, at the same time, incur a risk of having later to pay Income Tax on such amounts. The situation in that respect corresponds exactly to the situation in respect to the Company's Patronage Dividend Reserve, as already explained.

The Canadian Wheat Board was involved in this situation. Only the Board may buy wheat, which is received and paid for at country elevators by the elevator companies as agents for the Wheat Board. Under its Act of Incorporation, it is the duty of that body to provide:

> "That each producer shall receive for the same grade and quality of wheat the same price on the Fort William-Port Arthur or Vancouver basis."

It was, in the opinion of your Board, an obligation of The Canadian Wheat Board to see that payments for wheat made by its different agents or made by its agents during different periods of the year were equalized. The interest of your Company, however, demanded that there should be no further delay than absolutely necessary in equalizing payments made at your Company's elevators with those elsewhere made. It could not afford to wait for adjustment to be made by the Wheat Board which already had had a week in which to consider its position, in the period during which wheat prices in Alberta were on a lower basis than in other provinces.

The situation has been aggravated during the past week, in such a way as to emphasize still more present divergence from The Canadian Wheat Board Act, and the responsibility of The Canadian Wheat Board in this connection. As a result of the events already described still higher prices for Wheat Board wheat are now being paid at a number of points in western Canada, where some elevator companies have advanced their payments for Board street wheat by another one or two cents per bushel. Thus, at the points in question, some farmers are now getting paid for wheat delivered to the Wheat Board on one price basis, while the majority of farmers are being paid by the agents of the Wheat Board on another and a lower basis. Such discrepancies may quite possibly become more exaggerated in the near future. Continuance of such a state of affairs can easily involve The Canadian Wheat Board in difficulties from claims of some producers for adjustments, while there is danger also of bringing discredit upon the Board.

The Canadian Wheat Board is the only body permitted by law to purchase wheat from producers in Canada. It acts through agents for which it

must be finally responsible in all matters affecting price. The Canadian Wheat Board Act requires it to see that all producers of wheat receive the same prices for the same grades. That is not being done.

The Wheat Board will find it necessary, sooner or later, to insist upon uniformity of treatment of farmers by its agents.

In any event, the present basis for handling street wheat cannot continue for very long. It has been made possible only because elevator companies have been receiving large revenues for storing wheat. Such storage charges, for more than a year, have been paid largely by the Government of Canada, on the wheat it took over for Government purposes on September 27th, 1943. Revenue from that source may disappear to a large extent in the fairly near future, when western wheat is shipped out to fill requirements in Britain and other countries overseas.

TAXATION PROBLEMS III

A Royal Commission on Taxation

On May 17th and 18th, 1944, a conference on the subject of taxation was held at Winnipeg by representatives of co-operative organizations throughout Canada, including this Company. That conference decided, by a majority vote, and with this Company opposed to such action, to send a delegation to Ottawa, asking for certain new provisions in the Income Tax Act, to widen the tax exemption now given therein to certain classes of co-operative companies. Your representatives, declining to join in such a delegation, contended that such a move, during the war, while high corporation taxes are necessary and with tax cases pending in the courts, was inopportune, and could not then succeed. It was likely, they said, to endanger the position of certain co-operatives whose right to tax exemption up to that time had not been challenged. Moreover, to open up the subject at that time was likely to intensify the opposition against such tax exemption of co-operatives as now prevails.

These views proved to be correct. The delegation did not succeed. The opposition referred to has increased. Some tax exemption previously enjoyed has been endangered. The one definite result which has so far come out of the delegations' efforts has been the announcement by the Government that a Royal Commission is to be appointed to investigate the whole subject of taxation of co-operative companies.

Your Board has felt for some time that the controversy which has developed over the taxation of co-operatives might lead to the appointment of a Royal Commission. That, at least, was the experience in Great Britain, where a similar controversy, which had continued over many years was settled by the report of a Royal Commission, and legislation based thereon.

It is to be hoped that the Royal Commission now to be appointed will finally dispose of the current controversy. Undoubtedly many shareholders in ordinary corporations will be glad to support exemption of income taxation on patronage dividends paid by co-operatives, such as prevails in Great Britain, if it is accompanied by corresponding treatment of ordinary dividends,

such as also prevails there. (But the wartime taxation of excess profits applies in Great Britain both to corporations and to co-operatives.) Great Britain has avoided the "double taxation" of income earned by companies frequently complained of in Canada.

Your Board could not support the suggestion that co-operatives require for their survival tax discriminations in their favor. Co-operative organizations have a vitality which does not depend upon tax discrimination, as is shown by the record of your own Company, which has always paid Income Taxes, since the Income Tax Act was first passed, and which has never sought any tax discrimination on its own behalf. The history of British co-operatives is further conclusive proof. They have continued to flourish since 1933, when tax discrimination in their favor was abolished, and appear to be stronger now than ever.

Your Company, of course, has nothing to fear from a Royal Commission. From this Company's standpoint, however, it would have been preferable had the appointment not delayed, by a suspension of Exchequer Court cases, decision as to what the law has been and is, and what taxes are actually due from this Company on operations of the past four years. There has been imposed upon your Company a further, and regrettable, delay in the disposition of the $2,000,000.00 it now holds in Patronage Dividend Reserve.

CANADIAN FEDERATION OF AGRICULTURE

This Company is a member of and gives extensive financial support to the Canadian Federation of Agriculture. The annual meeting of that body was held in Quebec City, in January, 1944, with representation present of agricultural bodies throughout Canada. After that, according to custom, a presentation was made to the Dominion Cabinet by the Federation's Board of Directors. Copies of that submission have been widely distributed.

The Federation maintains an office in Ottawa, where its permanent officials, thè president and the secretary-treasurer, are able to keep in contact with members and officials of the Government.

Undoubtedly the Canadian Federation of Agriculture has had an important influence on public opinion, and in the shaping and administration of public policy related to agriculture during recent years. Its work has had a substantial part in bringing about full realization of the importance of agriculture as an essential wartime industry, and in the formation of policies based on that principle. So, too, there must be credited to the Federations' work the fact that the principle of floor prices for agricultural products during the period immediately following the war has been accepted, and that legislation for that purpose has already been passed. While there have been occasions during recent years when this Company has found it necessary to make its own representations on behalf of western agriculture direct to the Government, it is found more satisfactory, whenever possible, to make such representations through the established machinery of the Federation.

The Federation is attempting to get its budget established on the basis of an annual contribution of ten cents for each farmer who is a member of a Canadian farm organization. That basis has been accepted on behalf of this Company.

ADVISORY COMMITTEE ON RECONSTRUCTION

Sub-Committee on Agricultural Policy

There was published in 1944 a Report on Agricultural Policy made by a sub-committee of the Advisory Committee on Reconstruction appointed by the Dominion Government. This company had presented recommendations to that sub-committee, and it is gratifying to see the extent to which the report in question accords with these and with statements by this Company on other occasions.

Along with the report of your Board of Directors to the annual meeting a year ago there was submitted a statement on Agricultural Policy which included the following recommendation:

> "That Canada, in international negotiations which are now beginning, and which will culminate after the war, should endeavour to have wheat made a free trade commodity throughout the world."

That recommendation in those same words and supported by the actual arguments presented by the Company, is embodied as No. 3 in the summary of recommendations made by the sub-committee on Agricultural Policy.

The statement made by this Company's Directors a year ago put on record again, as had been done over a period of ten years, the need for a Canadian Wheat Institute, to work for the enlargement of markets for Canadian wheat. It will be recalled that a recommendation to that effect had been endorsed by the Royal Grain Enquiry Commission in 1938. The Company repeated this recommendation to the sub-committee on Agricultural Policy. It was accepted and endorsed by that body, with only a change of name for the proposed organization. The following may be quoted from the report:

> "The Sub-committee believes the national importance of the wheat marketing problem warrants the establishment of a National Wheat Marketing council, adequately financed by a substantial initial appropriation and thereafter supported by an annual sum of not more than half of one per cent of the value of the wheat exported. The Council should be given full authority to engage the necessary staff and to undertake two broad functions, namely, the collection of material for use in trade negotiations where wheat and flour are concerned, and the development of sales promotion efforts to take advantage of the trading opportunities as they arise. To this end the sub-committee recommends that such a marketing council be established, the personnel to include representatives of government departments or agencies concerned with wheat and flour, and representatives of organized producers and the trade."

Altogether 37 specific recommendations were included in the Sub-committee's report on Agricultural Policy. In addition to the foregoing there may be quoted the first of these

> "That the freeing of trade relations be accepted as the basic principle of post-war reconstruction in the field of international trade, and that the Government of Canada, representing one of the largest food-producing

nations with surpluses to distribute, take a definite lead in promoting at every opportunity the adoption of such an international policy."

That constitutes a statement of a fundamental principle, which obvious as it may appear to be, yet needs to be constantly reiterated.

INTERNATIONAL CONFERENCES

Several international conferences which took place during recent months, and the developments yet to arise from them, warrant the closest attention and interest of western farmers, for these are closely associated with the future welfare of Canadian agriculture.

The conference at Bretton Woods, U.S.A., had to deal with the problem of stabilizing monetary exchanges so that machinery may be available in the post-war world which will make it possible to conduct trade between different countries. That at Dumbarton Oaks dealt with the establishment of an international organization for the peace and security of the world. Without assurances in that respect, and the removal of fears of recurrence of war, there can be little hope for a sound economic foundation for western agriculture. There was held at Montreal, with a Canadian presiding, a meeting of the United Nations Relief and Rehabilitation Administration. Through that body it is to be expected that immediately following the war a large part of the present wheat surplus of this country as well as a large volume of other Canadian agricultural products, will be applied to the relief of war torn countries.

Mention must also be made of the meeting of the council set up under the Washington Wheat Agreement, attended by representatives of Canada, the United States, Great Britain, Australia and Argentina. There has been room for doubt as to whether or not the Washington Wheat Agreement, based largely as it was on the theory of adjusting wheat production to a restricted world demand, and only to come into effect after the war, would be found of permanent value. It is to be hoped that the larger conceptions of permitting an expansion in world trade and particularly in international trade in foodstuffs, will develop so as to make unnecessary the restrictions contemplated in the Washington Wheat Agreement. Argentina, although one of the signatories to that agreement, has for some time seemed to be out of sympathy with the United Nations, and that fact has created further doubts in that respect. However, the council was called together in an attempt to establish an agreed wheat price basis which will be applicable when the bulk of international wheat transactions are again on a commercial basis instead of as at present based on programs of mutual aid between the allied countries. A satisfactory basic price, if one can be agreed on, will have great importance to western farmers.

With the lapse of time since the Washington Wheat Agreement was signed in 1942, it can be more clearly seen that one of the basic defects associated with it was the attempt to deal with the wheat trade as an isolated problem, separated as it cannot and should not be separated either from the general structure of the world trade or international trade in foodstuffs as a whole. For example, when wheat is dealt with separately the other great exporting countries appear to be making a concesson to Canada in allotting to this country a forty per cent share of the combined exports of the four principal exporting countries. If, however, combined grain exports are con-

sidered, and account taken of the trade in such products as corn, which other countries export and Canada does not, and the export trade in meat, the Canadian share of the total is seen to be much smaller. Under certain circumstances, such as were in mind when the Washington Wheat Agreement was drafted several years ago, there may be no escape from such restrictive measures, but it is much to be hoped that different conditions will be found to prevail.

A HISTORY OF THE COMPANY

During the past year there has been published by the company a small book, entitled "The Grain Growers Record—1906 to 1943," giving a summary of the Company's history. Copies have been placed for reference at all offices and elevators of the Company, and other copies have been sent to Secretaries of local boards.

CONCLUSION

The delegates of the Company's shareholders have assembled for six annual meetings while this war has been in progress. We may hope that this will prove to be the last of our wartime meetings, and that before another one is held peace, following victory, will be firmly established.

Throughout the course of the war your directors have been accustomed to put before the delegates each year, suggestions for changes in the agricultural policy of Canada, designed to make agriculture as efficient as possible in the war purposes of this country. These have subsequently formed the bases of representations to the Government, usually through the Canadian Federation of agriculture. Further suggestions of that nature and for that purpose, are not called for at this moment. No further important changes based on wartime considerations are likely to be made in Canadian agricultural policy. We should recognize that a large number of the suggestions put forward by this Company have been incorporated in the public policy of Canada.

The time will soon arrive, and perhaps within the coming year, when adjustments in agricultural policy and agricultural production will be required to meet changing conditions. From time to time your directors may have to put forward suggestions in that respect, which suggestions when made, will be based upon principles already declared by the Board and approved in the past by representatives of the shareholders.

For another year at least it seems probable that the maximum agricultural effort of which this country is capable, will be required, either in connection with prosecuting the war or in providing relief to war torn countries. It must be hoped that in the period to follow, conditions will justify such production being maintained, and that agriculture can thus make the maximum contribution towards getting the economy of this country on a satisfactory peace-time basis. There is already assurance that a policy of floor prices for agricultural products will be maintained during the transition period. It is interesting to recall that this Company, three years ago, put forward the first suggestion of price guarantees to offset the fears of producers for a post-war decline in agricultural prices. It must not be supposed, however that the agricultural problems of this country are solved when public opinion and Government policy recognize the importance of reasonable prices for agricul-

tural products. For permanent prosperity of Canadian agriculture more is required. There are needed export outlets of such a nature, and world political and economic organization of such a kind that our export products can be satisfactorily marketed throughout the world. For that we can depend only to a limited extent on policies that can be formulated within Canada and put into effect by this country alone. More will depend upon the international structure for the maintenance of peace and upon the economic organization of the world that will develop after the war. The prosperity of Canadian agriculture and the welfare of all those engaged therein are bound up with the success of efforts now being made to insure collaboration of the nations of the world.

The directors must again acknowledge the continuing loyal support of the many thousand farmers who make use of the elevators of this Company. It is upon such support and the constant endeavours of your Company to earn that support, that the success of the Company over many years has been established.

Your directors also wish to acknowledge the loyal support and efficient efforts of the Company's staff under the strain imposed by wartime conditions, without which it would not have been possible to realize the satisfactory operating results which have been reported to you. Mention must be made also of that large number of the Company's staff, more than one hundred and fifty both men and women, who in the Army, Navy and Air Force in many parts of the world, are playing a part in the present struggle, and whose safe return is hoped for.

One year from now the Company will enter on its fortieth year of service to the farmers of western Canada. Its record over many years is one in which its members may properly take pride, and one which justifies the hope that in the future it will serve the interests of western agriculture as successfully as it has been able to do in the past.

UNITED GRAIN GROWERS LIMITED AND

Consolidated Balance Sheet

ASSETS

CURRENT AND WORKING ASSETS:			
Cash on hand and in banks		$ 597,843.52	
Dominion of Canada bonds Par value $300,000.00 at cost—quoted value July 31, 1944, $298,500.00		300,000.00	
Accounts and bills receivable Including storage and carrying charges and other accruals, after providing for estimated doubtful accounts.		764,371.29	
Inventories: As determined and certified by responsible officers of the Companies:			
Grain Representing net book stocks of (a) wheat and flax acquired on behalf of and deliverable to The Canadian Wheat Board, valued on basis of fixed prices set by that Board; (b) wheat originally acquired by the Company on its own behalf, but now held on behalf of and deliverable to The Canadian Wheat Board (Order-in-Council P.C. 7942), valued on basis of cost; (c) coarse grains valued on basis of quoted market prices.	$17,387,100.38		
Twine, coal and sundry merchandise—at cost	908,347.04		
		18,295,447.42	
Deferred and prepaid charges		124,982.55	
			$20,082,644.78
INVESTMENT:			
Memberships		$ 1.00	
Mortgages and agreements of sale		80,358.41	
Other securities—common stocks At book values.		1,661.00	
			82,020.41
EMPLOYEES' PENSIONS Representing payment to the Annuities Branch of the Dominion Government—less amounts written off.			262,558.04
BOND DISCOUNT AND EXPENSES—less amounts written off			82,318.04
CAPITAL ASSETS:			
Country and terminal elevators, sites, warehouses and other equipment, etc.—at cost		$11,847,441.05	
Less—Reserve for depreciation		6,337,198.39	
		$ 5,510,242.66	
Publication establishment account: Establishment costs of "The Country Guide"—net		93,275.93	
			5,603,518.59
			$26,113,059.86

Approved on behalf of the Board of Directors:

R. S. LAW
J. E. BROWNLEE } Directors

AUDITORS' REPORT TO THE SHAREHOLDERS:

We have made an examination of the books and accounts of United Grain Growers Limited and its Subsidiary Compenies for the fiscal

The cash in banks was confirmed by certificates obtained by us direct from the Companies' bankers and adequate provision has been ma chandise have been certified by responsible officers of the Companies and we have taken reasonable care to satisfy ourselves that all liabilities relation to patronage dividends as noted above, awaits final clarification. Depreciation for the year has been provided for in full at the customa

We have obtained all information and explanations we have required and, subject to the foregoing remarks, we report that in our opini view of the state of the Companies' affairs according to the best of our information and the explanations given to us and es shown by the book

Winnipeg, October 23, 1944.

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AND SUBSIDIARY COMPANIES
Sheet, July 31, 1944

LIABILITIES

	Current Liabilities:			
	Bank loans and overdrafts—secured		$10,659,585.92	
	Grain cash tickets and orders outstanding		3,834,375.56	
	Accounts payable and accrued liabilities		1,188,402.21	
	Reserve for income and excess profits taxes		262,697.27	
	After applying instalment payments in respect of such taxes for the current year.			
	Patronage dividends		2,000,000.00	
	Amounts allocated hereto for the 1941, 1942 and 1943 crop years but held in reserve pending clarification of the question of the Company's liability, if any, for income and excess profits taxes in connection therewith.			
	Shareholders' dividends		171,546.92	
	Including unclaimed dividends of prior years			$18,116,607.88
	First Mortgage Bonds:			
	Authorized $7,500,000 00			
	Issued			
	Serial bonds—maturing annually in the amount of $200,000.00.			
	3 per cent bonds—due March 1, 1945	$ 200,000.00		
	3½ per cent bonds—due March 1, 1946, 1947, 1948	600,000.00		
	4 per cent bonds—due March 1, 1949, 1950	400,000.00		
			$ 1,200,000.00	
	Sinking fund bonds:			
	4¼ per cent bonds due March 1, 1958		1,400,000.00	
				2,600,000.00
644.78	**Capital, Reserve and Surplus:**			
	Capital stock:			
	Class A non-cumulative preferred redeemable shares:			
	Authorized 200,000 shares—par value $20.00 each.			
020.41	Outstanding 143,631 shares after redemption of 4,551 shares to date.	$2,872,620.00		
558.04	Class B (membership) shares:			
	Authorized 200,000 shares—par value $5.00 each.			
	Outstanding 52,882 shares	264,410.00		
318.04	exclusive of 1,962 shares acquired and held in Treasury.		$ 3,137,030.00	
	General reserve:			
	Balance July 31, 1943—unchanged		1,647,057.42	
	Capital surplus:			
	Balance July 31, 1943	$ 80,748.61		
	Add—Amount arising from redemption of Class A shares during the year	32,548.96		
			113,297.57	
518.59	Earned surplus:			
	In terms of separate statement		499,066.99	
				5,396,451.98
059.86				$26,113,059.86

Companies | for the fiscal year ending July 31, 1944, and all our requirements, as auditors, have been complied with.
te provision | has been mada, in our opinion, for possible losses on accounts doubtful of collection. The stocks of grain, twine, coal and sundry mer-
rselves that | all liabilities as at July 31, 1944, have been taken up on the books as at that date; the question of incoma and excess profits taxes in
or in full at | the customary rates and the accumulated reserva for dapreciation at July 31, 1944, amounts to $6,337,198.39.
report that | in our opinion, the above consolidated balance sheet as at July 31, 1944, is properly drawn up so as to exhibit a true and correct
d as shown | by the books of the Companies.

PRICE, WATERHOUSE & CO.,
Auditors.

UNITED GRAIN GROWERS LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS, JULY 31, 1944

EARNINGS for the year ending July 31, 1944 . . .		$1,137,189.02
After writing off an amount of $3,589.93 in respect of temporary grain storage facilities and charging $1,225,000.00 for patronage dividend but before charging or providing for the undernoted:		
Deduct:		
Interest on bonds	$105,959.41	
Directors' fees	9,875.00	
Counsel and legal fees and remuneration of salaried directors	32,300.16	
Annual meeting expenses	20,628.71	
Provision for depreciation of capital assets	493,272.95	
		662,036.23
		$ 475,152.79
Deduct:		
Provision for taxes under Dominion Income and Excess Profits Taxation Acts—estimated		230,000.00
Profit for year		$ 245,152.79
Add:		
Earned surplus—Balance at credit July 31, 1943		458,411.89
		$ 703,564.68
Deduct:		
Appropriation for the purpose of redeeming and cancelling 1,630 Class A shares of the Company's capital stock	$ 25,575.25	
Dividend of five per cent declared on Class A shares	143,638.00	
Provision for dividend on Class B shares	13,704.00	
Amount written off bond discount and expenses	21,580.44	
		204,497.69
Earned surplus July 31, 1944		$ 499,066.99

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